

**MINUTES OF THE
EXECUTIVE APPROPRIATIONS COMMITTEE**
Tuesday, May 19, 2015 – 2:00 p.m. – Room 445 State Capitol

Members Present:

Sen. Lyle W. Hillyard, Co-Chair
Rep. Dean Sanpei, Co-Chair
Rep. Brad L. Dee, Vice Chair
Sen. Jim Dabakis
Sen. Gene Davis
Sen. Luz Escamilla
Sen. Karen Mayne
President Wayne L. Niederhauser
Sen. Ralph Okerlund
Rep. Patrice Arent
Rep. Joel K. Briscoe
Rep. Rebecca Chavez-Houck
Rep. James A. Dunnigan
Speaker Gregory H. Hughes

Rep. Brian S. King
Rep. Brad R. Wilson

Members Excused:

Sen. Jerry W. Stevenson, Vice Chair
Sen. J. Stuart Adams
Sen. Peter C. Knudson
Rep. Francis D. Gibson

Staff Present:

Mr. Jonathan Ball, Legislative Fiscal Analyst
Mr. Steven Allred, Deputy Director
Ms. Greta Rodebush, Legislative Secretary

Note: A copy of related materials and an audio recording of the meeting can be found at www.leg.utah.gov.

1. Call to Order/Approval of Minutes

Co-Chair Sanpei called the meeting to order at 2:12 p.m.

MOTION: Sen. Hillyard moved to approve the minutes of February 5, 2015, February 17, 2015, and March 11, 2015. The motion passed unanimously with Sen. Davis, President Niederhauser, Rep. Dee, and Rep. Wilson absent for the vote.

2. Federal/Non-federal Grants Review

Mr. Evan Curtis, Governor's Office of Management and Budget (GOMB), discussed the "Federal and Non-Federal Grants Report" dated May 19th, 2015. Under federal grants, there were eleven new grants, two reapplications of existing grants, and one supplemental grant requiring legislative action. In addition, there were eleven new grants and four reapplications/continuations of existing grants approved by the Governor's Office.

Under non-federal grants, there were six new grants and one continuation of an existing grant requiring legislative action. The Governor's Office approved three non-federal grants.

Sen. Hillyard asked about the designation of one-time funding in the federal grant appropriations process.

Mr. Ball stated that the Legislature appropriates federal funds as 'federal funds' without any designation. He noted, however, that legislative rules state that any appropriation that is not designated as one-time is considered ongoing. Mr. Ball added that the Federal Funds Commission, in an effort to mitigate the risk

associated with federal receipts and federal grants, may recommend that one-time federal funding be designated as such.

Sen. Hillyard felt that it would be important to note in the federal/non-federal grants report that the State has no expectations of future obligations by accepting these monies.

Mr. Curtis indicated that the Governor's Office looks at the grant terms.

Sen. Hillyard requested that the Governor's Office notify the committee if it has any concern about a grant that may create an expectation or obligation for the State in next month's meeting.

MOTION: Sen. Hillyard moved to recommend acceptance of the federal and non-federal grants as outlined on page 1 of the handout entitled, "Federal/Non-Federal Grants Review and Approval" under the heading, "Grants Requiring EAC Review and Recommendation" and dated today, May 19, 2015. The motion passed unanimously with President Niederhauser and Rep. Wilson absent for the vote.

3. Performance Audit of URS' Management and Investment Practices

Mr. Darin Underwood, Audit Manager, Office of the Legislative Auditor General (OLAG), introduced Mr. Wayne Kidd, Audit Supervisor, and Mr. Jake Dinsdale and Ms. Katherine Stanfill, Audit Staff Members.

Mr. Kidd presented "A Performance Audit of URS' Management and Investment Practices" dated May 2015. The audit addresses concerns raised about URS transparency, the defined benefit asset allocation, qualifications of board members and advisory staff, and the selection and retention of external investment managers. In brief, audit findings indicate that (1) URS can take steps to be more transparent; (2) URS should consider reviewing its high alternative asset allocation; (3) URS board and staff are qualified to perform fiduciary responsibilities; and (4) Defined Contribution (DC) investment manager selection and retention processes are satisfactory.

Mr. Kidd and Mr. Dinsdale responded to committee questions regarding URS' defined benefit asset allocation, which has increased alternative investments (private equity, real assets, and hedge funds) from 16 to 40 percent from 2005 to 2013. They also addressed questions on URS' performance and return on investments.

Speaker Hughes shared his perspective on URS' current asset allocation, the mitigation of losses during economic downturns, and investing for the future.

Mr. Ball referred to a previous performance audit by the State Auditor that found that URS' assumed rate of return in calculating funding status was too high. He asked if URS' conservative asset allocation strengthens the argument that URS' rate of return is too high. Mr. Kidd pointed out that since 2004, the 20-year average return has exceeded the current assumed rate of return. The OLAG audit points out that a review of URS' 2013 experience study and other criteria show that URS' current investment return assumption is reasonable. Mr. Kidd also clarified that the independent consultant did not do any long-term projections on URS' current asset allocation.

Mr. Dan Anderson, Executive Director, URS, elaborated on URS' assumed rates of return, contribution rates, and alternative asset allocation. He commented that downside protection is critical in the long-term funding of a perpetual fund. Mr. Anderson felt that URS' alternative asset allocation is a well thought out allocation. He said that it is important to look at URS' overall investment portfolio and the risk adjusted net returns.

Mr. Dee Larson, General Counsel, URS, pointed out that not all alternative investments are equal and that the URS has the ability to contract, negotiate, and adjust the risk associated with these investments.

Mr. Anderson and Mr. Larsen responded to committee questions.

Sen. Hillyard asked if there is anything that the Legislature could do to clarify statute or add to code that would be helpful to URS in making investment decisions. Mr. Anderson felt that the direction URS receives from the Legislature has been quite clear, but he welcomed further dialogue.

Rep. Sanpei said that the committee discussion was very helpful and informative.

4. Fiscal Health Check-up

Mr. Ball gave some brief remarks about the Fiscal Health Dashboard and the monthly fiscal health check-up reports that will be presented during the Executive Appropriations Committee (EAC) meetings.

Ms. Clare Tobin Lence, Fiscal Analyst, LFA, and Dr. Thomas Young, Senior Economist/Forecaster, LFA, presented background information on sources of state revenue and discussed variation and volatility in revenue estimates and collections.

Rep. Briscoe asked if there are any indicators that might point to where April final payments are going.

Dr. Young suggested that the December payment may signal where the April final payments will be going as well as the stock market and tax rates.

Mr. Ball indicated that in next month's EAC meeting, Dr. Young and Dr. Wilko, along with GOMB and the Tax Commission, will present a consensus range update for June 30, 2015.

5. Adopt Revenue Estimates after 2015 G.S. Legislative Actions

Dr. Andrea Wilko, Chief Economist, LFA, presented the "May Revenue Estimates in Thousands, FY 2015 – FY 2015." She explained that the May revenue forecast reflects February revenues adjusted for any tax or policy changes the Legislature made during the General Session that impact revenues. Once adopted, the Division of Finance uses the revenue estimates to calculate a potential surplus at the end of the year.

MOTION: Sen. Hillyard moved to adopt revenue estimates as shown on the handout entitled, "May Revenue Estimates in Thousands, FY 2015 – FY 2016" and dated today, May 19, 2015. The motion passed unanimously with Sen. Escamilla, President Niederhauser, Rep. Dee, and Rep. Wilson absent for the vote.

6. Summary of 2015 G.S. Budget Actions

Mr. Ball discussed a number of resources that legislators might find useful in talking to constituents or making presentations about Utah's \$14.2 billion budget. They included: (1) Utah Budget Quick Facts – a pocket-sized card that provides an overview of the state budget including some related information on demographics, rates, obligations, and reserves; (2) Utah State Budget PowerPoint – a short 14 slide presentation with speaker notes that walks through the budget in more detail; (3) “Budget of the State of Utah, 2015-2016” – a comprehensive report detailing each transaction in the budget; and (4) Interactive Appropriations Summary – an online interactive summary of the budget.

Rep. Dee commented on how valuable these resources are to legislators in responding to constituents.

Mr. Steven Allred highlighted eight bills that passed during the last general session that changed budget policy.

Mr. Ivan Djambov, Fiscal Analyst, LFA, demonstrated how to use the interactive online Appropriations Summary 2015.

Mr. Spencer Pratt briefly reviewed the details of the appropriations report, “[Budget of the State of Utah and Related Appropriations](#).” He noted that although the report was finished, it had not been printed because there may be some changes if the Legislature goes into Special Session later in the Interim.

Rep. King remarked that the online interactive Appropriations Summary was very impressive.

MOTION: Sen. Hillyard moved to accept the report, “Budget of the State of Utah and Related Appropriations” as a required report under UCA 36-12-13 and to direct staff to distribute the report to all legislators. The motion passed unanimously with Sen. Escamilla absent for the vote.

7. Required Reports to EAC

Mr. Allred discussed the Issue Brief, “Required Reports to Executive Appropriations Committee” that includes a listing of all reports required to be given to the Executive Appropriations Committee (EAC) statute or rule. In order to maximize the EAC's flexibility and time to hear needed reports in a timely fashion, the Analyst recommended moving three regular reports and eight contingent reports to other committees, and deleting five expired reporting provisions. Mr. Allred noted that each change will require a bill or resolution for implementation. He asked the committee to review the Analyst's recommendations and alert the co-chairs or staff with any concerns prior to the June EAC meeting.

8. Impact of ACOs on Medicaid Costs

Mr. Russell Frandsen, Fiscal Analyst, LFA, and Dr. Thomas Young, Senior Economist/Forecaster, LFA discussed the PowerPoint presentation, “Medicaid Accountable Care Organizations (ACOs),” which defines the relationship between ACO implementation and Medicaid costs.

Mr. Frandsen explained that the LFA was tasked to answer the following questions – Did the change beginning in 2013 in the Medicaid program to Accountable Care Organizations (ACO), a type of managed care, bend the cost curve? Mr. Frandsen reported that based upon LFA’s analysis with 80-90 percent confidence, that the cost curve was bent between \$7 to \$19 million General Fund from 2013 through March 2015.

He noted two important assumptions and data limitations for the analysis. The LFA only had 27 months of data to establish a trendline and do the analysis. Additionally, the analysis assumed that all changes to total Medicaid expenditures were attributed to ACOs, when in fact, the ACOs pay for about 50 percent of all Medicaid services expenditures.

Mr. Frandsen reviewed a chart, “Medicaid 365 Day Moving Average Cost by Period (Billions \$),” which compares three trend lines and substantiates where the savings estimate comes from. The trends lines represent 1) the six months where ACO’s were operating and the State was still paying a lot of claims from the former retroactive payment system, 2) Medicaid expenditures prior to the implementation of the ACO’s, and 3) during the ACO period from July 2013 through March 2015.

Mr. Frandsen and Dr. Young responded to committee questions on how the savings was determined for ACOs, factoring in moderated health care costs, cost growth projections, and variables predicting Medicaid costs, annual Medicaid growth trends, and enrollment projections,

Mr. Ball clarified that the analysis did not test for causation. However, the decrease in the cost of health care correlates very highly with the impact of ACOs.

Sen. Davis asked how many years it would take to get a good study and estimate of what the cost savings might be. Mr. Ball explained that the analysis will get better with time as we get more data, we will have a better sense if there is a strong correlation or not. Sen. Davis felt that it would be important to include outcome data along with the health care expenditures.

Mr. Michael Hales, Department of Health, commented on the aggregate per-member-per-month costs. He said that there are an infinite number of variables that go into rate setting process with the ACOs. Overall, having to take into account additional expenditures for the Medicaid program, the department was quite encouraged by the report.

Mr. Nate Talley, GOMB, commented that it is not easy to identify or quantify the Medicaid savings associated with ACO policy intervention. GOMB analyzed how the trend and level of per-member-per-month costs, by aid category, changed within the four-county Metro region (ACO-intervention group) and the Non-Metro region (Non-intervention group) after ACO implementation in January 2013. Mr. Talley reported that GOMB’s findings are generally consistent with LFAs although GOMBs estimates or savings fall within the lower third of LFA’s range.

9. Utah Communications Authority Report

Rep. Brad Dee called attention to a public safety issue affecting the citizens of the State of Utah. He explained that the federal government through the FCC has informed the states of a move to an 800

megahertz public safety radio system within the next few years which would become a statewide and nationwide emergency communication system.

Mr. Steven Proctor, Utah Communications Authority (UCA), gave a status report on Utah's two existing emergency systems and recommended a complete rebuild of the radio system. He highlighted several critical issues having to do with system network components, capacity, coverage sites, and technology. Mr. Proctor stated that the UCA has retained two qualified public safety consulting firms, ADCOMM Engineering, which completed the work associated with the Task Force 2013-2015, and Deltawrx, which is helping with outreach and vendor meetings and reviewing technology.

Mr. Proctor indicated that \$1.5 million would fund the implementation plan and a schedule, along with vendor meetings and outreach to users.

Rep. Chavez-Houck commented on the integrity of the communications equipment and obsolescence of technology.

Rep. King asked for some more information on ADCOMM and Deltawrx and the time frame to complete the project. Mr. Proctor indicated that the project should take about 5 years to complete.

Rep. Dee spoke in support of the upgrade and expansion of the public safety communication network.

MOTION: Rep. Dee moved to direct the Legislative Fiscal Analyst (LFA) to work with the Utah Communications Authority (UCA) to develop procedures by which UCA will deliver timely, complete, and compatible budget data to LFA for the 2016 General Session, and report those procedures back to EAC in October. The motion passed Sen. Escamilla and Rep. Wilson absent for the vote.

10. DTS Federal Reimbursement next meeting.

Co-Chair Sanpei announced that this agenda item would be heard in next month's EAC meeting.

11. Other Business/Adjourn

MOTION: Sen. Hillyard moved to adjourn. The motion passed unanimously with Sen. Escamilla and Rep. Wilson absent for the vote.

Co-Chair Sanpei adjourned the meeting at 4:24 p.m.